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### INDEPENDENT AUDITORS' REPORT

To the Honorable Board of County Supervisors Waukesha County, Wisconsin

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Waukesha County, Wisconsin, as of and for the year ended December 31, 2008, which collectively comprise the county's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the county's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Waukesha County, Wisconsin, as of December 31, 2008, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we will issue a report on our consideration of Waukesha County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



# To the Honorable Board of County Supervisors

The management's discussion and analysis and budgetary comparisons as listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Waukesha County's basic financial statements. The combining and individual fund financial statements and schedules as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements, and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements for the year ended December 31, 2008 taken as a whole.

The "Letter of Transmittal" and "Statistical Section" listed in the accompanying table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of Waukesha County, Wisconsin. The information has not been audited by us and, accordingly, we express no opinion on such information.

Baker Tilly Virchow Krause, LLP

Madison, Wisconsin June 5, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

This section of Waukesha County's comprehensive annual financial report presents a discussion and analysis of the County's financial performance during the fiscal year ended December 31, 2008. Please read it in conjunction with the transmittal letter at the front of this report and the County's basic financial statements following this section.

### FINANCIAL HIGHLIGHTS

The assets of the County exceeded the liabilities at the close of 2008 by \$380.3 million (*net assets*). Of this amount, \$119.1 million (*unrestricted net assets*) may be used to meet ongoing obligations to citizens and creditors, \$13.0 million is restricted for specific purposes (*restricted net assets*), and \$248.2 million is invested in capital assets, net of related debt.

The government's total net assets increased by \$6.4 million. Governmental activities increased the County's net assets by \$6.9 million. This increase was offset by a decrease of \$0.4 million in business type activities net assets.

On December 31, 2008, the County's governmental funds reported combined fund balances of \$111.1 million, an increase of \$9.3 million from 2007. Approximately \$31.8 million, or 29% of the combined fund balance, is unreserved and undesignated.

## **OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to the County's basic financial statements. The County's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements** are designed to provide readers with a broad overview of the County's financial statements, in a manner similar to a private-sector business.

- The *statement of net assets* presents information of all County assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the County is improving or deteriorating.
- The statement of activities presents information showing how net assets changed during the most recent
  fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change
  occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this
  statement for some items that will result in cash flows in future fiscal periods (e.g. uncollected taxes and
  earned but unused vacation leave).

Both of these government-wide financial statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the County include justice and public safety; health and human services; environment, parks, and education; public works, and general government. The business type activities. of the County include radio services, golf courses, ice arenas, materials recovery facility, and airport.

The government-wide financial statements include not only Waukesha County itself (known as the *primary government*) but also a legally separate Housing Authority for which Waukesha County is accountable. Financial information for this component unit is reported separately from the financial information presented for the primary government itself.

The government-wide financial statements can be found on pages 30-31 of this report.

**Fund financial statements** are groupings of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. The County, like other state and local governments, uses fund accounting to ensure and demonstrate finance-related legal compliance. All of the funds of the County can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds are used to account for essentially the same functions reported as governmental
activities in the government-wide financial statements. However, unlike the government-wide financial
statements, governmental funds financial statements focus on near-term inflows and outflows of spendable
resources, as well as on balances of spendable resources available at the end of the fiscal year. Such
information may be useful in evaluating a county's near-term financial requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By so doing, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The County maintains 26 individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures and changes in fund balances for the General, Human Services, Long Term Care, and Debt Service funds, all of which are considered to be major funds. Data from the other 22 governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The basic governmental fund financial statements can be found on pages 32-35 of this report.

• Proprietary funds are maintained two ways. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The County uses enterprise funds to account for the airport, radio services, golf courses, ice arenas, and materials recovery facility. Internal service funds are an accounting device used to accumulate and allocate costs internally among the County's various functions. The County uses internal service funds to account for vehicle/equipment replacement, central fleet maintenance, communications, risk management/self-insurance, collections, and end user technology. Because these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

Proprietary fund financial statements provide the same type of information as the government-wide financial statements, only in more detail. The Airport is the only operation considered to be a major fund of the County. The County's six internal service funds are combined into a single aggregated presentation in the proprietary funds financial statements. Individual fund data for the internal service funds is provided in the form of *combining statements* elsewhere in this report.

The proprietary funds financial statements can be found on pages 36-39 of this report.

**Notes to the Basic Financial Statements** provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes can be found on pages 41-79 of this report.

**Required Supplementary Information** is presented for the budgetary schedules of the general fund and major special revenue funds.

### **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. For the County, assets exceed liabilities by \$380.3 million at the close of the most recent fiscal year.

### Waukesha County Net Assets (in \$000's)

	Governmen	tal activities	Business-typ	oe activities	Total			
	2008	2007	2008	2007	2008	2007		
Current and other assets	\$ 254,867	\$ 245,534	\$ 18,030	\$ 16,421	\$ 272,897	\$ 261,955		
Capital assets	288,348	291,412	30,027	31,926	318,375	323,338		
Total assets	543,215	536,946	48,057	48,347	591,272	585,293		
Current and other liabilities	124,393	125,009	1,573	1,418	125,966	126,427		
Long-term liabilities	84,975	84,955			84,975	84,955		
Total liabilities	209,368	209,964	1,573	1,418	210,941	211,382		
Net assets:								
Invested in capital assets,								
net of related debt	218,181	218,423	30,027	31,926	248,208	250,349		
Restricted net assets	12,969	11,748	-	-	12,969	11,748		
Unrestricted net assets	102,697	96,811	16,457	15,003	119,154	111,814		
Total net assets	\$ 333,847	\$ 326,982	\$ 46,484	\$ 46,929	\$ 380,331	\$ 373,911		

The largest portion of the County's net assets (65%) reflects its investment in capital assets (e.g. land and easements, structures and improvements, infrastructure, and equipment, less any related debt used to acquire those assets that is still outstanding). The County uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the County's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Unrestricted net assets comprise 31% of the County's net assets. These assets may be used to meet the County's ongoing obligations to citizens and creditors.

The remaining balance of the County's net assets, 4%, represents resources that are subject to external restrictions (grant or trust terms, laws or regulations of other governments, etc) on how they may be used.

At the end of the current fiscal year, the County reported positive balances in all three categories of net assets, both for the County as a whole, as well as for its separate governmental activities. The same situation held true for the prior fiscal year.

As shown on the following table, the County's net assets increased by \$6.4 million during the current year. This results from total 2008 revenues of \$220.8 million and expenses of \$214.4 million. Overall revenues decreased by \$4.5 million from the prior year, while expenses decreased by \$4.1 million.

# Waukesha County Changes in Net Assets

(in \$000's)

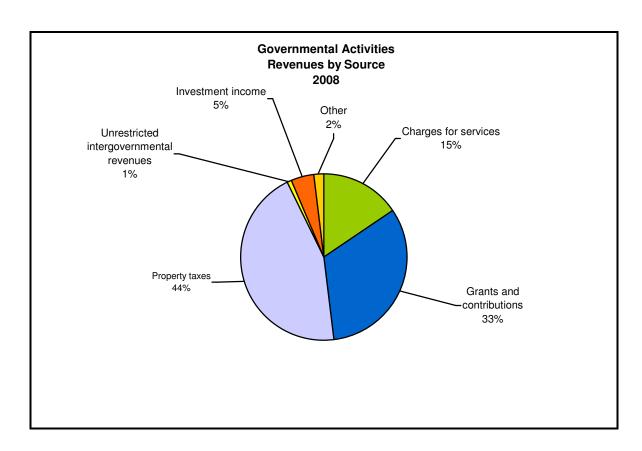
	Governmental Activities		Business-ty	pe Activities	Total		
	2008 2007		2008	2007	2008	2007	
Revenues:							
Program revenues:							
Charges for services	\$ 32,770	\$ 34,367	\$ 6,728	\$ 6,691	\$ 39,498	\$ 41,058	
Operating grants and contributions	68,478	71,690	1,352	1,071	69,830	72,761	
Capital grants and contributions	484	789	10	28	494	817	
General revenues:		, 66				<b>3</b>	
Property taxes	94,957	92,383	203	560	95,160	92,943	
Intergovernmental revenues	1,985	1,867	_	-	1,985	1,867	
Investment earnings	9,626	10,733	83	74	9,709	10,807	
Miscellaneous	3,710	4,681	316	42	4,026	4,723	
Gains on disposal/sale of capital assets	129	320	_	6	129	326	
Total revenues	212,139	216,830	8,692	8,472	220,831	225,302	
Expenses:							
Justice and public safety	49,961	46,666	-	-	49,961	46,666	
Health and human services	86,750	94,452	-	-	86,750	94,452	
Environment, parks and education	19,312	19,616	-	-	19,312	19,616	
Public works	33,032	32,116	-	-	33,032	32,116	
General government	13,445	13,521	-	-	13,445	13,521	
Interest expense	3,049	3,188	-	-	3,049	3,188	
Radio services	-	-	969	910	969	910	
Golf courses	-	-	3,290	3,201	3,290	3,201	
Ice arenas	-	-	1,191	1,119	1,191	1,119	
Materials recovery facility	-	-	1,711	2,036	1,711	2,036	
Airport		-	1,701	1,689	1,701	1,689	
Total Expenses	205,549	209,559	8,862	8,955	214,411	218,514	
Increase (decrease) in net assets							
before transfers	6,590	7,271	(170)	(483)	6,420	6,788	
Transfers	275	275	(275)	(275)		-	
Increase (decrease) in net assets	6,865	7,546	(445)	(758)	6,420	6,788	
Net assets beginning of year	326,982	319,436	46,929	47,687	373,911	367,123	
Net assets end of year	\$ 333,847	\$ 326,982	\$ 46,484	\$ 46,929	\$ 380,331	\$ 373,911	

#### **Governmental Activities**

Governmental activities increased the County's net assets by \$6.6 million before transfers. Revenues for the County's governmental activities totaled \$212.1 million. This was a decrease of \$4.7 million from 2007, or 2.2%.

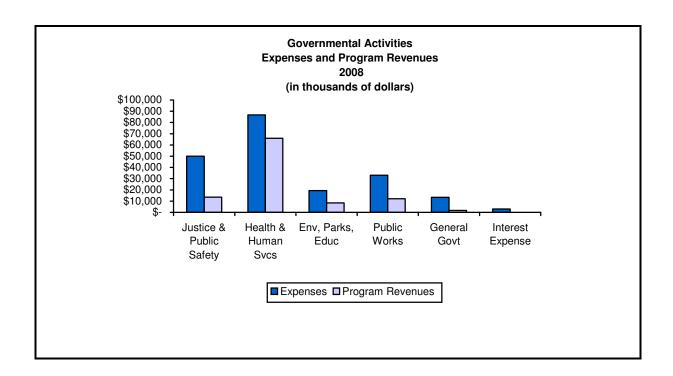
- Program revenues were down \$5.1 million, or 4.8%. Operating grants and contributions decreased \$3.2 million, or 4.5%, while charges for services revenues decreased \$1.6 million, or 4.6%.
- Investment earnings were down \$1.1 million from 2007. The average yield was 3.9% compared to 4.6% in 2007.
- Property taxes increased by \$2.6 million, or 2.8%.

The percentage of revenues by source is shown below. There were no significant changes in percentages from 2007.



The overall decrease in expenses for governmental activities was \$4.1 million, or 1.9%.

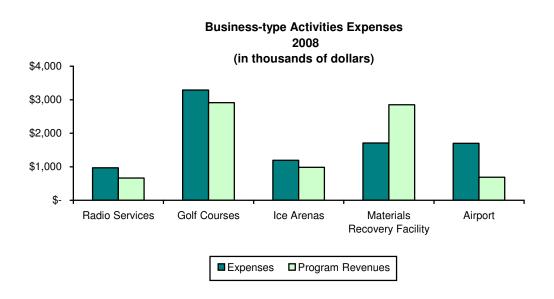
Governmental activities expenses exceeded program revenue by \$103.8 million. The following graph illustrates the expenses and program revenues for each area. When general revenues (which include such items as property tax, investment earnings, and grants and contributions not restricted to specific programs) are included, total revenues exceed expenses by \$6.6 million prior to transfers.



## **Business-type Activities**

Business-type activities (before transfers) decreased the County's net assets by \$169,900. Key factors in these results include the following:

- Airport Operations had an operating loss of \$964,000. The operation does not recover its annual depreciation
  expense of \$963,000, since capital improvements are typically funded through a combination of Federal and
  State grants and county tax levy.
- The Materials Recovery Facility (MRF) had an operating loss of \$206,000. The operating loss is more than offset by State aid of \$1.4 million.
- The Golf Courses and Ice Arena funds posted losses of \$291,500 and \$174,900 respectively, while Radio Services had operating income of \$25,800.



### FINANCIAL ANALYSIS OF THE COUNTY'S FUNDS

As noted earlier, the County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental Funds**. The focus of the County's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the County's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, Waukesha County's governmental funds reported combined fund balances of \$111.1 million, an increase of \$9.3 million in comparison with the prior year. Approximately 58% of this amount constitutes unreserved fund balance, which is available for spending at the government's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed 1) for long term receivables/advances (\$4.1 million); 2) for delinquent property taxes (\$8.4 million); 3) to pay debt service (\$3.6 million); 4) for capital projects (\$23.3 million); 5) for park purposes (\$7.4 million) and 6) for other purposes (\$0.1 million).

Of the \$64.2 million unreserved fund balance, \$32.4 million, or 58%, is designated at year-end for specific types of activities, including \$10.2 million for capital projects, \$13.8 million for open purchases orders or other commitments in the future year's budget, \$0.5 million for sick leave payout, \$3.9 million for health and dental insurance reserves, and \$4.0 million for an interfund loan repayment.

## Waukesha County Changes in Fund Balance (in \$000's)

	2008		 2007	Change		
Reserved:						
General	\$	12,472	\$ 12,822	\$	(350)	
Human Services		2	2		-	
Long Term Care		-	-		-	
Non-Major Special Revenue		7,569	7,095		474	
Debt Service		3,575	3,242		333	
Capital Projects		23,295	 13,545		9,750	
Subtotal Reserved	\$	46,913	\$ 36,706	\$	10,207	
Designated:						
General	\$	19,851	\$ 17,960	\$	1,891	
Human Services		343	410		(67)	
Long Term Care		289	355		(66)	
Non-Major Special Revenue		1,770	1,922		(152)	
Debt Service		-	-		-	
Capital Projects		10,179	12,152		(1,973)	
Subtotal Designated	\$	32,432	\$ 32,799	\$	(367)	
Undesignated:						
General	\$	28,500	\$ 29,627	\$	(1,127)	
Human Services		330	325		5	
Long Term Care		1,566	795		771	
Non-Major Special Revenue		1,357	1,519		(162)	
Debt Service		-	-		-	
Capital Projects		-	-		_	
Subtotal Undesignated	\$	31,753	\$ 32,266	\$	(513)	
Total						
General	\$	60,823	\$ 60,409	\$	414	
Human Services		675	737		(62)	
Long Term Care		1,855	1,150		705	
Non-Major Special Revenue		10,696	10,536		160	
Debt Service		3,575	3,242		333	
Capital Projects		33,474	 25,697		7,777	
Total Fund Balance	\$	111,098	\$ 101,771	\$	9,327	

## **General Fund**

The general fund is the chief operating fund of the County. At the end of the current fiscal year, unreserved, undesignated fund balance was \$28.5 million while total fund balance was \$60.8 million. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total

fund expenditures Unreserved, undesignated fund balance represents 31 percent of total general fund expenditures, while total fund balance represents 66 percent of that same amount.

The fund balance of Waukesha County's general fund increased by \$3.5 million during 2008 before net transfers of \$3.1 million. Key factors in this growth are as follows:

- While investment earnings were less in 2008 than 2007, they were \$2.3 million greater than the County's budget. The budget does not include a projection of any market value change since the County typically holds investments to maturity, and for 2008 the unrealized market value appreciation was \$2.5 million.
- Due to favorable health insurance claims experience, the County decreased its health insurance reserves by \$1.3 million, which increased miscellaneous revenues by the same amount.
- Planned use of fund balance included \$2.7 million for capital projects and \$580,000 for debt service.

### **Human Services**

The Human Services Fund is used to account for the revenues and expenditures associated with the Human Services Department. Human Services is the largest department within County government and receives a wide variety of intergovernmental revenues. The Human Services fund balance remained virtually unchanged for the year, decreasing \$61,850 from 2007.

### Long Term Care Fund

This fund is used for services to the eligible elderly, physically or developmentally disabled, or chronically mentally ill. Fund balance increased by \$1.3 million before planned transfers out of \$555,000 (\$355,000 for capital projects, \$200,000 for operating budget support for the Human Services fund). Health and Human Services intentionally did not budget for all of the expected Basic County Allocation funding in 2008 in anticipation of the payments the County will be required to make for the Family Care program over the next five years. Fund balance will be used to help offset the County's required contribution to the program.

### **Debt Service**

The debt service fund has a total fund balance of \$3.6 million, all of which is reserved for the payment of debt service. The net increase in fund balance during the current year was \$332,800.

**Proprietary funds**. Waukesha County's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. Factors concerning the finances of these funds have already been addressed in the discussion of the County's business-type activities.

#### **GENERAL FUND BUDGETARY HIGHLIGHTS**

Differences between the original budget and the final amended budget resulted in a \$3.3 million increase in appropriations. Carryovers and open purchase orders accounted for 64% (\$2.1 million) of the increase. This amount was budgeted from available fund balance. The remaining \$1.2 increase is mainly attributable to grants, including:

- \$450,000 Homeland Security- Urban Area Security grant for the department of Emergency Preparedness
- \$358,460 for Sheriff Department seized funds allocations for various equipment and training purposes.
- \$125,000 Drug Free Communities grant for UW-Extension.

Actual revenues in the general fund were \$2.0 million higher than the final amended budget. Miscellaneous revenues resulting from reductions in insurance reserves of \$1.5 million were not budgeted for. Investment earnings, which include both income and the increase in fair value from the prior year, were \$2.3 million over budget. Revenue in the Register of Deeds office was \$1.2 million under budget, reflecting the soft housing market.

Actual expenditures in the general fund were \$5.9 million under budget. Of that amount, \$2.5 million will be carried forward to 2009 for budgeted projects which where not completed in 2008. The contingency fund had \$708,000 in unallocated expenditure authority. The balance of the budget variance was spread across several program areas.

### **CAPITAL ASSET AND DEBT ADMINISTRATION**

## **Capital Assets**

The County's investment in capital assets for its governmental and business-type activities at December 31, 2008, amounted to \$318.4 million (net of accumulated depreciation), a decrease of \$5.0 million from 2007. This investment in capital assets includes land and easements, infrastructure, structures and improvements, equipment, and construction in progress.

The County's infrastructure assets are recorded at estimated historical cost in the government-wide financial statements. The County has elected to use the depreciation method of reporting capital assets.

## Waukesha County's Capital Assets

(net of depreciation) (in 000's)

	Governmental Activities				Business-type Activities				Total			
		2008		2007	2008		2007		2008			2007
Governmental Activities				_				<u>.</u>				
Land	\$	42,048	\$	42,051	\$	10,289	\$	10,289	\$	52,337	\$	52,340
Buildings		109,547		111,249		9,372		9,864		118,919		121,113
Land improvements		7,893		7,377		7,804		8,687		15,697		16,064
Machinery and equipment		9,856		10,761		2,428		3,024		12,284		13,785
Vehicles		5,305		5,466		98		61		5,403		5,527
Infrastructure		103,993		107,430		-		-		103,993		107,430
Construction in Progress		9,705		7,077		36		1		9,741		7,078
Total	\$	288,347	\$	291,411	\$	30,027	\$	31,926	\$	318,374	\$	323,337

Further details of the County's capital assets can be found in Note 8 of the notes to the financial statements, pages 63-65.

## **Long Term Debt**

At December 31, 2008, the County had \$78,320,000 of general obligation promissory notes outstanding. The County maintains an Aaa rating from Moody's Investors Service and AAA from Fitch Investors Service on general obligation note issues. Under current state statutes, the County's general obligation note issuances are subject to

a legal limitation based on five percent of the equalized value of taxable property in the County. As of December 31, 2008 the County's total amount applicable to debt margin (outstanding notes less debt service fund balance) is \$74.7 million, which was well below the legal limit of \$2.7 billion. The net debt per capita equaled \$205 at year-end.

During the year, the County issued \$10 million of general obligation promissory notes, dated May 1, 2008, to finance part of the cost of capital improvements within the County.

Further details of the County's long-term debt activity can be found in Note 10, pages 67-68.

#### **ECONOMIC FACTORS AND THE 2009 BUDGET AND RATES**

During an economic slowdown, the County faces increased demands for service and rising costs for their effective delivery, many of which are greater than the rate of inflation. With more than 40% of the County's budget dedicated to delivering federal and state mandated services, discretionary spending is at a minimum after the cost-to-continue these operational needs have been funded: jail inmate costs, snow removal, road salt prices, workers compensation claims, and energy cost increases. There are also a number of major federal and state revenue sources that have been reduced, eliminated, or frozen for several years, which have a great impact on this year's budget. All of these factors were considered in preparing Waukesha County's budget for the 2009 fiscal year.

### **REQUEST FOR INFORMATION**

This financial report is designed to provide a general overview of the County's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Department of Administration, Accounting Services Division, 515 West Moreland Blvd., Waukesha, WI 53188.

Questions concerning any of the information provided in this report regarding the discretely presented component unit, Waukesha County Housing Authority, or requests for additional information should be addressed to the Waukesha County Housing Authority, 120 Corrina Blvd, Waukesha, WI 53186.